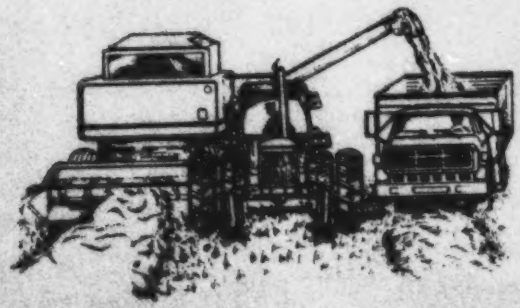
Saskatchewan Agriculture

Economics Branch

Farm Management



Land Rental Arrangements

Foreword

This publication outlines the management, legal, and tax considerations of leasing privately owned land. In addition, it provides guidelines for the landlord and tenant when negotiating a rental agreement.

The landlord and tenant should study the material carefully and prepare a written agreement that suits their individual situation. With longer term agreements both parties should remember that economic conditions are uncertain. For this reason, agreements in excess of three years should provide for a periodic review of the essential terms.

Lease forms published by Saskatchewan Agriculture are available from Agricultural Representatives and Regional Farm Management Specialists. These forms are available for Crop Share Leases, Cash Leases, Flexible Cash Leases and Supplementary Forms for unusual circumstances in a lease agreement.

Warning: Landowners who rent land to anyone other than a spouse or a child may not qualify for the capital gain rollover under the Income Tax Act when the land is transferred to a child. Also, if the land is not qualified farm property, it may not qualify for the full capital gain exemption. Consult a lawyer, accountant or Farm Management Specialist for specific information.

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I. Introduction to Land Leasing

The large capital investment required in farms today can make renting farm property a good alternative to ownership. The 1981 census indicates that nearly one-half of Saskatchewan farmers lease at least a portion of their farm land. One-third of the total farm land is under lease and bigger farms rent a larger portion of their land base as compared to smaller farms.

There are both advantages and disadvantages to leasing land:

1. Advantages:

(i) Obtaining Capital

Capital investment is shared between two individuals in a land rental arrangement. The landlord supplies land, buildings, and perhaps some of the operating expenses. The tenant supplies labor, machinery, and usually the major portion of the operating expenses. In this way an operator can reach a larger size of business. It is also a means for becoming established in farming. Since leasing is an alternative to ownership, it is really a means of "financing" a land base.

(ii) Increasing Efficiency

When funds are limited it is often more profitable to spend this money on seed, fertilizer, chemicals, and machinery. Investing scarce funds in land may severely restrict the money available for operating capital thus lowering the efficiency of the farm business.

(iii) Obtaining Farm Experience

Renting enables the beginning farmer to gain needed experience in the financial operations of a farm business before he commits himself to a long-term investment in land. It also enables the operator to learn more about land in an area and leaves him in a more flexible position to change farms or to leave farming. Renting may enable a younger man to obtain the managerial assistance of an older experienced landlord.

(iv) Sharing Risk

By renting, both the landlord and the tenant can share in the risks and uncertainties of farming. This is particularly important to a farmer with limited capital. The extent of the risk-sharing depends upon the nature of the lease agreement.

(v) Father-Son Arrangements

A father-son business arrangement might include a lease agreement whereby the son rents land from the father or rents land from a third party and shares the machinery investment with the father.

(vi) Providing Retirement Income

A retiring farmer might consider leasing all or a portion of his land base rather than selling. The ownership of land provides a hedge against inflation since land values tend to increase with inflation and rising grain prices. The income from the rent provides a form of "pension" income to live on during retirement.

A farmer approaching retirement could gradually phase out of farming by renting a portion of his land and farming the rest of it. In this way, his workload is reduced but he still maintains an interest in farming.

2. Disadvantages:

(i) Lack of Security of Tenure

Short term leases create additional uncertainty and insecurity for the tenant. Machinery size and complement must be matched to the land base. The cancellation of a lease could leave the tenant farmer in a high cost situation.

Short term leases provide more flexibility for landlords since it is possible to change tenants quickly or to sell the land. However, short term leases can work to the detriment of the landlord since it will not encourage superior farming practices by the tenant.

(ii) Lack of Efficiency, Conservation and Incentive to Make Improvements

Short term leases may discourage production efficiency. For example, some tenants will not use the optimum amount of fertilizer under a crop share lease unless the landlord shares in the expense of fertilizer.

Most soil conservation practices are of a long run nature. Most tenants with a short term lease are therefore interested only in practices which will show results during the term of the lease. Similarly, improvements of an intermediate or long-run nature (e.g., drainage channel, tree planting, buildings) are not encouraged unless there are provisions for compensation in the agreement.

(iii) Lack of Credit

The tenant farmer usually has a more difficult time to obtain long term credit than does the owner-operator. The three major reasons for this are: the lender requires land as security for the loan; leased land does not build equity; and the lease is short term. The tenant should have no greater difficulty than the owner-operator in obtaining operating and intermediate term credit.

(iv) Lack of Bargaining Power and Managerial Control

There may be situations where the landlord has greater bargaining power even though the tenant is a capable manager. The landlord may obtain more than a fair share of the rental arrangement. He may also be only one-half the contribution by the tenant. For example, the landlord may insist on certain crops being grown which are not the most profitable as far as the tenant is concerned.

(v) Lost Opportunity for Capital Gain

Land prices have generally increased over time although they do decline occasionally. Land appreciation is an added benefit to the landowner even though the capital gain is not realized until the property is sold.

(vi) People Problems

As with any business venture involving two or more persons, disputes and disagreements can arise.

Most of the disadvantages outlined above can be reduced or eliminated by meeting the basic general requirements of any lease arrangement.

(vii) Potential Loss of Capital Gain Rollover

Land leased to anyone other than a spouse or child means that a taxpayer does not qualify for the capital gain rollover when the land is transferred to a child. However, the individual may be eligible to use the $500,000 Capital Gains Exemption if the rollover does not apply.

II. Requirements For a Successful Lease

1. Compatibility and Honesty

The most important aspect of any lease arrangement is that the landlord and tenant are able to get along together and resolve quickly any disagreements that may arise. Even under the most compatible situations between a landlord and tenant, there are times when they may not be able to agree. Provisions should be made in the written lease agreement for arbitration of differences by a third party whenever the occasion demands a settlement.

It is also important that the individuals are honest. The landlord in a crop-share leasing arrangement should be particularly concerned about the honesty of the tenant since he depends on the tenant to give him the specified share of crop.

2. Equitable Terms

Most people who enter into a lease agreement are concerned that it should be fair to both the landlord and tenant. If the arrangement is not fair then one of the parties is not likely to be satisfied. This jeopardizes the chances for maximum profits to be realized and for the arrangement to continue.

3. Written Agreement

A written agreement is essential so that each party knows what is expected. This will not only prevent misunderstanding but it will encourage both the tenant and landlord to "think through" an equitable and reasonable lease. Each party knows from the written lease what their rights and responsibilities are.

4. Flexibility

In entering into a lease agreement it should be recognized that interests, ambitions and requirements of people change over time. Economic and social conditions also change. Enough flexibility should be included in the written agreement to permit an equitable adjustment to unexpected situations that may appear.

5. Suitability

The arrangement must fit the needs of the individual situation. The lease should be of sufficient duration to permit relatively long-run production practices on the farm. A longer term lease will give the tenant more security and encourage him to use good management practices. The lease arrangement should also be simple enough so that it is workable.

III. Types of Land Leasing Arrangements

The three common land leasing arrangements on cropland are the Crop Share, the Cash Rent and the Flexible Cash Rent.

In all three types it is normal for the landlord to supply the land, grain storage and pay the property taxes. The tenant pays the operating expenses, and supplies labor and machinery to farm the land.

The division of income varies with the type of leasing arrangement. In the case of the Crop Share the most common division is a one-third share of all crop sales to the landlord and two-thirds share to the tenant. The income is divided as the grain is sold.

For Cash Rental arrangements the tenant receives the income from all crop sales but pays the landlord a fixed dollar amount each year as the rent. Normally the rent is paid in advance.

In the case of the Flexible Cash Rent, the tenant receives all the income from crop sales but the dollar amount paid to the landlord each year varies with either the price of grain or yield of grain, or both price and yield. The flexible cash rent incorporates features of both the Crop Share and Cash Rent leases.

The amount of risk that is borne by the tenant and landlord depends on the the type of leasing arrangement. Two types of risk that occur in land leasing arrangements are:
1) Marketing Risk
2) Production Risk

With marketing risk income is affected by price variations, crops grown, delivery opportunities and storage costs and losses. In the case of production risk, income is affected by the crop yields due to weather, insects, disease, use of inputs and general management.

The following table shows the type of risk borne by the landlord for different leasing arrangements.

Landlord's Risk for Leasing Arrangements

Risk Borne by Landlord		
Type of Lease	Marketing Risk	Production Risk
Crop Share Lease	Yes	Yes
Flexible Cash Lease	Yes	No
Cash Lease	No	No

Since the return on an investment should relate to the amount of risk assumed, in the long run one should expect that a landlord would receive a higher total rent from Crop Share leases, lower rent on a Cash Rental and medium rent for a Flexible Cash Lease.

IV. What Is A Fair Rent?

A fair rent is one that is satisfactory for both the tenant and landlord and relates to their costs, investments, labor and management provided.

The "contribution approach" is a useful method of testing the fairness of a lease arrangement. This approach simply means that:

"Each party to an arrangement should share the income from the land in the same proportion as they contribute to the costs."

Other things being equal, a tenant should receive a larger share if he contributes more in the way of crop inputs, machinery, labor or accepts a larger risk. By the same token, a landlord should receive a larger rent for more productive, higher valued land.

The contributions approach is applied later in this bulletin in the examples used to illustrate the rent for Crop Share, Cash, and Flexible Cash Leases.

V. Cost Calculations

In calculating the costs for each party it is important to use realistic estimates. The annual costs of the landlord and tenant include depreciation, interest on investment, cash operating expenses and labor and management. When the tenant incurs costs which arise from work on both his own land and rented land such costs should be averaged over the entire cultivated acreage farmed by the tenant. For example, the tenants cost of depreciation and investment on machinery should be averaged over the tenants' total cultivated acreage.

Additional information on cost calculations is available from your Agricultural Representative or Regional Farm Management Specialist.

In using the contributions approach to value the landlords investment allowance, consideration should be given to the fact that land normally has two types of earnings. These are:

1. An annual interest return on investment (rent).
2. Long term appreciation in value (capital gain).

Land values have increased at an average annual compound rate of 11% in the past twenty years and 9% over the past 30 years. The rental and capital gains earnings are combined to give the total return on land investment. For this reason, a 5% interest on investment allowance has been used in the examples since a reasonable total return to investment may be 12-15%.

VI. Written Agreements

A satisfactory lease is one which contains adequate provisions for governing the rental arrangement and is agreed to by a landlord and tenant. Lease agreements should include all the important terms and be in a written form. A written lease serves as a reference in case of disputes and assists in reaching a clear understanding. All leases should contain the following:

1. Names and Addresses of Tenant and Landlord

2. Description of Property to be Rented:

The agreement must specify the common legal description of the rented land (e.g., NW 16-17-19-W2). Certain areas or permanent buildings

to be excluded must be specified. For example, the landlord may wish to exclude the farm house and continue residing on the premises.

3. Length of the Lease:

The agreement must state the duration of the lease including the time it commences and terminates. Longer term leases are desirable since they reduce the uncertainty and insecurity experienced by the tenant and encourage him to farm the land properly. Since economic conditions may change, agreements in excess of three years should provide for a periodic review of the essential terms.

4. Amount and Payment of Rent:

The rent payable for leased land is usually a share of crop or cash rent. Negotiation and agreement are the final determinants of the amount of rent, although the contributions approach can be used to test the fairness of the rental arrangement. The rent and payment schedule must be stated in the written agreement.

5. Responsibility of Taxes:

Unless specified otherwise in the written agreement, taxes are the responsibility of the landlord.

6. Compensation for Repairs to Buildings, Fences, and Improvements:

The written agreement should state who is responsible for repairing buildings, fences, and other improvements, and how the expenses will be shared. A common practice is to have the tenant responsible for all minor repairs and for the landlord to reimburse the tenant for improvement costs which have a lasting benefit longer than the rental term.

7. Rights, Responsibilities, and Compensation for Major Improvements:

Provisions should be made in the lease to compensate the tenant for major improvements which extend beyond the length of, or termination of, the lease. Major improvements include building and fence construction, erosion control, water development, and clearing and breaking. It is usually required that the tenant obtain written permission from the landlord before making major improvements. It is also important to outline how the value of improvements will be determined and when compensation will be made. A tenant will sometimes do clearing and breaking on leased land. In order to reimburse the tenant for the improvement, the landlord may collect no rent off the improved land for a number of years.

The number of years of free rent should relate to the fair market value of the improvement made by the tenant, interest rates and the normal rent that would be obtained by the landlord on the improved land.

To determine the number of years of free rent for the tenant the value of the improvement could be considered like a loan. By using amortization tables, after the interest rate and value of rent have been determined, the number of rent free years can be determined. For example, if the value of the land improvement was $100.00 per acre, the interest rate was 10% and the normal rent on the improved land was $20.00/acre, the result would be 7 years. (The amortization factor to pay off $1.00 at 10% over 7 years is .2054, therefore it would take approximately $20.00 to pay off $100.00 in 7 years).

8. Rights to Assign or Sublet the Lease:

The written agreement could contain a clause which prevents the tenant from subletting or assigning the lease to another individual without the written consent of the landlord.

9. Restriction and Responsibilities Regarding Production Practices and Management Decisions:

The written agreement should specify those production and management decisions which the landlord insists be carried out by the tenant.

(i) Summerfallow

Usually the landlord requires the tenant to summerfallow a portion of the cultivated acreage. To encourage the tenant to fulfill this commitment a penalty is often specified which is payable to the landlord when the lease is terminated or renewed. A similar compensation should also be made by the landlord to the tenant when the summerfallow acreage exceeds the required amount. The amount of compensation is a matter of negotiation between the landlord and tenant.

The party to a lease arrangement who incurs a loss created by a change in the usual or required cropping rotation should be reimbursed to the extent of their reduced income.

This approach is outlined in the following example:

Assumptions:

Crop rotation 1/2 crop--1/2 summerfallow

Yields	
--summerfallow wheat	25 bushels per acre
--stubble wheat	15 bushels per acre
Rental Arrangement	1/3-2/3 crop share

All the land is cropped in the last year of the agreement. The landlord farms the land himself the next year.

Calculations:

Additional Income to Landlord (last year of lease agreement)
Stubble Crop
15 bushels per acre x 1/3 share=+5 bushels
Reduced Income to Landlord (next year)

Summerfallow yield (foregone)	25
Stubble crop yield received	15
	-10 bushels
Net loss by landlord=	5 bushels of wheat

Equitable Approach:

Since the landlord has received a lower income because the tenant altered the usual or required cropping rotation he should be reimbursed for this loss. The landlord's loss includes the value of the reduced yield plus the additional costs of stubble cropping compared to summerfallow cropping. In the example, the tenant should pay the landlord the value of 5 bushels of wheat of a specific grade plus the additional costs of stubble cropping over summerfallow cropping such as fertilizer, weed control costs, and insurance. In situations where there is a high level of fertilizer applied to the stubble crop, the yield reduction may be reduced thereby reducing the total loss per acre to the landlord.

There should be provisions in the agreement whereby the summerfallow requirement can be waived under certain circumstances. For example, with very favorable moisture conditions and a crop-share arrangement the landlord and tenant may feel it is to their mutual advantage to crop the entire cultivated acreage.

(ii) Other Requirements

The following factors should also be considered in drawing up a crop leasing agreement:
--cropping decisions
--use of fertilizer and chemicals
--crop insurance
--quota allocation
--delivery and sale of grain

10. Responsibility for Grain Storage:

The written agreement should outline the minimum amount of grain storage, if any, to be provided by the landlord. If additional grain storage is required it is usually provided by the tenant.

11. Grain Stored on Land at Commencement and Termination of Lease:

The written agreement should specify how long undelivered grain can be stored on the rented land without storage charges.

12. Right of Entry:

The landlord or a representative of the landlord should have the right at all times to inspect the rented property and remove any grain stored on the land which he wasn't able to sell at the commencement of the lease. Similarly, the tenant should be able to remove his share of grain stored on the rented land or complete harvesting of the crop after termination of the lease agreement. The Agricultural Leasehold Act protects the tenant's interests.

An incoming tenant, purchaser, or landlord should have the right to enter on the land after harvest in the last year of the agreement to prepare the land for next year's crop.

13. Arbitration:

It is considered desirable to include an arbitration clause in the written agreement. Any disagreement which might arise and which cannot be resolved between the landlord and tenant would by mutual agreement be referred to a third party who would act as an arbitrator. This approach is usually preferable to a court case which can be very costly.

14. Option to Buy:

Occasionally the landlord may give the tenant an option to buy the land under lease at some time during the lease or at the end of the lease. Another alternative is a "Right of First Refusal" whereby, should the landlord ever wish to sell the land, then the tenant is given the right to buy the land at the same terms and conditions offered by another purchaser.

15. Compensation for Property Damages:

The party who has suffered any loss should receive any compensation payable. For example, if a payment is made as a result of crop damage, the tenant should receive the entire compensation in the case of a Cash Rent, but the compensation should be shared in the same portion as the crop is shared in a Crop Share Rent. In the case of capital damage to land, the landowner should receive the entire compensation:

16. Miscellaneous:

The two parties to the lease agreement may write into the lease a clause which would terminate the lease if certain natural disasters occurred. For example, if the land was flooded and the tenant was unable to use the property, it would be unfair to insist that the tenant continue to pay the cash

rental unless the level of rent agreed to, had taken into account the risk of flooding.

Other unforseen circumstances include the installation of a highway, gas line, oil well sites, etc. on the rented land thus creating inconvenience and additional operating costs for the tenant. In some instances it may be considered desirable to renegotiate the terms of the lease or compensate the tenant for the added costs or reduced income which he may incur.

VII. Crop Share Lease

The crop-share lease is the predominant method of leasing crop land in Saskatchewan. In most crop share leases, the landlord receives one-third share of all crops grown on the leased land. The landlord pays the property taxes and supplies grain storage. The tenant receives two-thirds share of the crop and supplies all the machinery, labor and crop inputs.

With today's agricultural technology there are many variations to the standard crop share lease. Often, the landlord and tenant will share some costs such as fertilizer and chemicals in the same proportion that the crop is shared.

Occasionally a landlord may supply machinery with the lease or pay part or all of the seed costs.

Landlords may receive a share that is higher than one-third, as well. This is often the case where the land is of superior productivity and has a high market value.

There are several advantages and disadvantages to Crop-Share Leases. These are:

1. Advantages

(i) The landlord and tenant share the risks associated with grain prices, quotas and yields in the same proportion as the share of crop.

(ii) The rent varies directly with the value of production and is paid as the crop is sold, rather than in advance.

(iii) The landlord may pay part of the crop inputs such as fertilizer and chemicals.

(iv) An inexperienced tenant may be able to utilize the management expertise of a landlord with farming experience.

(v) A landlord will make more money in the long run on a crop share arrangement compared to other arrangements providing that the tenant is a good manager.

2. Disadvantages

(i) The results of a tenant's superior farming are shared with the landlord.

(ii) The landlord may wish to influence decisions on the leased land.

(iii) The landlord will make less money on a crop share arrangement compared to other arrangements if the tenant is a poor manager.

(iv) There is more administration and problems on a crop share arrangement than other rental arrangements. (Production, quotas, cash advances, feed fed to livestock).

(v) The honesty of the tenant is very important to the landlord.

3. The Amount of Crop Share Rental

An equitable crop-share rent should relate to the contributions of each party. However, negotiating ability and agreement are the final determinants of how income is to be shared. Small differences in cost contributions and crop-share ratios are often less important than honesty, compatibility, the tenants farming ability and prospects for a long term lease. In relation to the tenant's farming ability a landlord would receive as much rent on a one-third crop share as compared to a 40% crop share if the tenant could increase the value of crop production by 20%.

The following example illustrates the use of the contributions approach as a means of determining a crop share rent.

Example: Share of Crop

Landlord's Costs per Cultivated Acre	
Investment Cost	
$500 x 5% =	$25.00
Taxes	2.50
Grain Storage	2.00
Total	$29.00

Tenant's Costs per Cultivated Acre*	
Seed	$ 5.00
Miscellaneous Costs	3.50
Machinery	
Fuel, Oil Repairs	14.00
Investment cost	13.00
Depreciation	13.00
Labour	20.00
Total	$68.50

Total Cost Contributions = $29.50 + $68.50 = $98.00

Landlord's Share = $\frac{\$29.50}{\$98.00} \times 100 = 30\%$

Tenant's Share = $\frac{\$68.50}{\$98.00} \times 100 = 70\%$

*Fertilizer and chemical costs not included as a contribution since it is assumed that these costs will be shared proportionately between the landlord and tenant.

This example indicates that a 70:30 crop share arrangement would be equitable given the level of contributions of each party. The cost of fertilizer and chemicals would be shared in the same ratio as the share of crop.

4. Crop Share Lease Variations

(i) Level of Use and Sharing of Costs of Crop Inputs

If the tenant supplies all the crop input costs as compared to sharing some of those costs in the same proportion as the crop is shared, then he should receive a larger share of the crop.

With longer crop rotations, special high cost specialty crops, and continuous cropping, crop input costs, machinery investments and labor inputs will be higher for the tenant as compared to shorter crop rotations. **Longer crop rotations should provide a larger share of the crop to the tenant.** See Appendix 3 for an analysis described as "Cropping Decisions for Crop Share Leases."

The following table provides a general guide as to how income should be shared if a land leasing arrangement is to be equitable with different levels of tenants costs and land values.

Landlord's Percentage Share of Crop*

Land Value ($/cult. acre)	Tenant's Costs ($/cult. acre)**														
	30	35	40	50	55	60	65	70	75	80	85	90	95	100	
$200	33	29	27	24	22	21	19	18	17	16	15	15	14	13	13
250	36	33	30	27	25	24	22	21	20	18	18	17	16	15	15
300	39	36	33	30	28	26	25	23	22	21	20	19	18	17	16
350	42	39	35	33	31	29	27	25	24	23	22	21	20	19	18
400	45	41	38	35	33	31	29	27	26	25	23	22	21	21	20
450	47	44	40	38	35	33	31	29	28	26	25	24	23	22	21
500	50	46	42	40	37	35	33	31	30	28	27	26	25	24	23
550	52	48	44	42	39	37	35	33	31	30	29	27	26	25	24
600	53	50	46	43	41	39	37	35	33	32	30	29	28	27	26
650	55	51	48	45	43	40	38	36	35	33	32	30	29	28	27
700	57	53	50	47	44	42	40	38	36	34	33	32	31	29	28
750	58	55	51	48	46	43	41	39	38	36	34	33	32	31	30
800	60	56	53	50	47	45	43	41	39	37	36	34	33	32	31
850	61	57	54	51	48	46	44	42	40	39	37	36	34	33	32
900	62	59	55	52	50	47	45	43	41	40	38	37	35	34	33
950	63	60	57	54	51	49	46	44	43	41	39	38	37	35	34
1000	64	61	58	55	52	50	48	46	44	42	40	39	38	36	35

* The landlord's investment cost in land has been calculated using 5% interest rate plus taxes and building costs estimated at $4.50 per cultivated acre.

** It is important to use realistic estimates of the tenant's costs. In many instances it may be necessary to recalculate the equitable share ratio using the contributions approach outlined in the preceding example.

(ii) Rental Arrangements with Machinery

Generally the inclusion of machinery in a land rental arrangement is not recommended, however, it can be justified on a short term basis in some circumstances. For example, the landlord may not be able to find a tenant with sufficient machinery to farm the rental property. Perhaps the landlord decides to rent the property for a year or two but is uncertain if it will be permanent. In these circumstances it may be wise for the landlord to retain the ownership of machinery.

Including machinery in a land rental agreement has potential problems. The landlord could lose financially if the tenant abuses the machinery through reckless handling and improper servicing or maintenance. The landlord should assess the tenant's farming practices carefully. The written agreement should specify who is responsible for minor and major repairs. If the tenant is responsible for all repairs, it puts the onus on him to operate and service the equipment properly. This could be a disadvantage to the tenant if the equipment is old and the landlord is reluctant to replace it with newer machines. Major repairs (e.g., motor overhaul, replacement of tires) would likely

be the responsibility of the landlord providing the tenant has not been negligent.

When a landlord rents his machinery, the Income Tax Act requires that he switch his machinery from the Straight Line Method (Part XVII) to the Declining Balance Method (Part XI) of capital cost allowance. In most cases this is undesirable since it would mean that all recaptured capital cost allowance that occurs when the class is closed out (e.g., sale of all machinery in that class) would be taxable income. This problem could be avoided by the tenant hiring the machinery on a custom basis with the fee being a share of the crop or cash payment. For this situation, switching to Part XI method of capital cost allowance is not required.

The share of crop or cash rental based on the contributions approach could vary considerably as very old machinery is replaced with new machinery. For this reason it may be necessary to recalculate the cost contributions for years when the old machinery and equipment are replaced with new implements.

The following example illustrates how to determine the share of crop using the contributions approach when machinery is included in the agreement. Assume that land is valued at $500.00 per acre, and the tenant pays for all fuel, oil, and minor repairs. Fertilizer and chemicals are shared in the same ratio as the share of crop.

Landlord's Costs Per Cult. Acre	
Investment Cost - Land	
$500 x 50% =	$25.00
Taxes	2.50
Grain Storage	2.00
Machinery	
Investment	13.00
Depreciation	13.00
TOTAL	$55.50

Tenant's Costs Per Cult. Acre	
Seed	$ 5.00
Miscellaneous Costs	3.50
Machinery	14.00
Fuel, oil, repairs	
Labour	20.00
TOTAL	$42.50

Total Cost Contributions = $55.50 + $42.50 = $98.00

Landlord's Share = $\frac{\$55.50}{\$98.00} \times 100 = 57\%$

Tenant's Share = $\frac{\$42.40}{\$98.00} \times 100 = 43\%$

The cost of fertilizer and chemicals would be shared in the same ratio (57%-43%) as the share of crop. If the tenant were to supply all the fertilizer and chemicals and these costs were $12.00 per cultivated acre then the landlord's share would be 50% and the tenants share 50% using the contributions approach.

A worksheet is provided in Appendix 1 to assist with the calculation of a crop-share ratio.

5. Crop Share Lease Agreement

In addition to the points listed for all leases, a crop share lease agreement should include the following:

(i) Cropping Decisions

Normally, the tenant makes the cropping decisions about crops to grow, acreages of each and use of inputs. Occasionally, the tenant may discuss cropping plans with the landlord and in some cases the landlord may want a direct say in the cropping decisions.

Use of Fertilizer and Chemicals

The tenant and landlord can agree to the amount of crop inputs to apply and as to how such costs will be shared. It is recommended that both parties share the cost of fertilizer and chemicals in the same proportion as the crop is shared. In situations where the tenant pays the entire cost, he has less financial incentive to apply optimum levels of crop inputs as compared to situations where both parties share those costs proportionally.

However, the method if any of sharing input costs should affect the division of the crop. For example, the tenants share should be larger when he supplies all input costs as compared to a situation where some input cost are paid by both parties.

(iii) Crop Insurance

The two main types of insurance available for crops are as follows:

(a) Hail insurance is offered by private companies as insurance against hail or fire on a spot loss basis.

A tenant or landlord may insure their share of the growing crop separately by purchasing insurance coverage separately from any company offering hail insurance.

(b) All risk crop insurance is offered by the Saskatchewan Crop Insurance Board which guarantees the value of a minimum level of grain

production from all losses (hail, fire, theft, drought, etc.). Spot loss hail insurance is part of the program.

There are two ways that Saskatchewan Crop Insurance can be handled in a crop share lease. These are:

- only the tenant insures under the program. He pays all the premiums required and receives all the indemnities. The landlord has no coverage under these programs.

- the landlord and tenant can jointly share the costs and benefits of crop insurance. The parties agree to share the premiums and benefits of crop insurance on the rented land in the same proportion as the share of crop. For example, assume the land farmed by the tenant consists of 100 acres of rented land and 500 acres of owned land. With a Saskatchewan Crop Insurance premium of $600 the premium associated with the rented land is 100 acres/600acres x $600 =$100. The landlord's share of the premium in a 1/3-2/3 crop share arrangement is 1/3 x $100 =$33.33. Any benefits realized from the All Risk Crop Insurance could be shared in the same manner. Except for 'spot losses' associated with hail and fire, claims under the Saskatchewan Crop Insuarance program are based on the total unit farmed by the operator. There is no distinction on losses associated with the rented land and the operator's land. For this reason it could be difficult to determine the losses and benefits of All Risk Crop Insurance belonging to the rented land.

(iv) Quota Allocation:

The Canadian Wheat Board requires that the actual grain producer allocate quota acres. In some instances this could be to the detriment of the landlord since quota acres arising from rented land are not separate from the quota acres farmed by the tenant. For this reason a clause may be included in the written agreement which specifies how quota acres will be allocated.

Most often, the landlord will rely on the judgement and honesty of the tenant to allocate the quota acres to mutual advantage. Where allocation is made by mutual agreement the lease should specify how the acres will be assigned when agreement is not possible. Crop quota acres identified with the rented land should not be less than the rented land should not be less than the rented acreage eligible for quota assignment purposes.

(v) Delivery and Sale of Grain:

Indicate who is responsible for the delivery and sale of quota and non-quota grains. Usually the tenant is responsible for the delivery of quota grains in accordance with prevailing quotas and market conditions. The landlord, on the other hand, often wishes to specify how non-quota grains such as canola and flaxseed are to be sold.

VIII. Cash Lease

In a cash lease the tenant pays a fixed cash payment to the landlord for the use of the land and improvements. The tenant receives all the income. He supplies labor, machinery and pays all the expenses except for property taxes, building insurance and major building repairs.

A cash lease is especially suited to absentee landlords and other landlords who wish to be assured of stable income without much administration. With widely fluctuating grain prices landlords and tenants may not prefer cash rent. A flexible cash rent which is tied to grain prices may be more appropriate.

The following are the advantages and disadvantages of cash leases:

1. Advantages

(i) The landlord receives a guaranteed return and does not have to be concerned about crop yields, grain prices, quota problems, crop rotations or the tenant's honesty. Because he accepts less risk, the rent should normally be lower than on a crop-share basis.

(ii) The tenant has more flexibility and independence in production and management decisions.

(iii) The results of superior production accrue entirely to the tenant.

(iv) The tenant is able to make contributions to the Western Grain Stabilization Plan on all the grain sales as compared to only his share on a crop share lease.

(v) There is less administration.

(vi) Production can be used for livestock feed or seed more easily than on a crop-share lease.

2. Disadvantages

(i) The tenant assumes all production and marketing risk.

(ii) Rent is paid in advance of crop sales.

(iii) The landlord does not get the benefit of high prices or unusually good crops.

(iv) Because of the risk of changing circumstances, the leases are normally short term.

(v) The landlord has less influence on a tenants management.

3. The Amount of Cash Rent

Negotiation between the landlord and tenant will determine the amount of cash rent for a piece of land. However, the level of cash rents in the district is the major factor that will set a rent for a piece of land.

However, landlords and tenants either jointly or individually may use budgeting guidelines to calculate cash rents. There are four methods that can be used. These are (i) the cost approach; (ii) the income approach; (iii) the contributions approach; and, (iv) the crop share equivalent approach.

With the **cost approach** the cash rent is based on the minimum fixed costs that an owner must recover. Among such fixed costs are property taxes, interest on investment, depreciation, and insurance.

With the **income approach** the tenant estimates the maximum cash rent he can afford to pay based on his expected costs and income.

The **contributions approach** combines the cost approach and income approach to arrive at an equitable cash rent. It is illustrated in the following example:

Example:

Landlord's Costs Per Cult. Acre

Investment Cost	
$500 x 50% =	$25.00
Taxes	2.50
Grain Storage	2.00
TOTAL	$29.50

Tenant's Costs Per Cult. Acre

Seed	$ 5.00
Miscellaneous Costs	3.50
Fertilizer & Chemicals	12.00
Machinery	
Fuel, oil repairs	14.00
Investment Cost	13.00
Depreciation	13.00
Labour	20.00
	$80.50

Total Cost Contributions = $29.50 + $80.50 = $110.00

Landlord's Share = $\frac{\$29.50}{\$110.00} \times 100 = 27\%$

The amount of cash rent would be equivalent to the landlords share multiplied by the anticipated yield (e.g., average municipal yield) and expected price of a specific crop. For example, if the expected wheat yield was 18 bushels per cultivated acre and the expected final price was $4.50 per bushel, the cash rent would be 27% x 18 bushels x 4.50 per bushel =$21.87 per cultivated acre.

In this example the cash rent would be $29.50 per cultivated acre using the cost approach. The cash rent determined by the income approach would be as follows:

Tenant's expected income	
18 bushels per cultivated acre x $4.50 per bushel =	$81.00
Tenant's cost of production	-80.50
Net income per cultivated acre	$ 0.50

After covering all his costs of production the tenant in this example could afford a cash rent of $0.50 per cultivated acre provided that he obtained the expected yield and grain price for the duration of the lease agreement.

With the **crop share equivalent approach,** the rent that would be realized by the landlord under average conditions on a crop share lease are determined. For example, if the expected wheat yield was 18 bushels per cultivated acre, the expected final price was $4.50 per bushel and the normal crop share in the district was 1/3 share to the landlord (with the tenant paying all input costs) then the crop share equivalent would be 1/3 x 18 bushels per acre x $4.50 per bushel =$27.00 per cultivated acre. This amount should be discounted by 5% to 15% since a cash rent is paid in advance of production, while a crop share rent is paid as the production is sold.

4. Cash Lease Agreement

In addition to the points listed for all leases, a cash lease should include the following:

(i) Date(s) on which the rental is payable. The payment of the cash rent can be any schedule agreed upon by the landlord and tenant. Examples of two alternatives are:

(a) The rental is payable in full by April 1 for each year of the agreement (or)
(b) The rental is payable (one-half, one-third, etc.) by April 1 and the balance by December 1 for each year of the agreement.

(ii) Special rights of the landlord if the rent is in arrears. The landlord should be given the right to repossess and occupy the rented land if the tenant fails to make the payments according to the schedule outlined in the agreement. In addition, he may use any other means under the law (e.g., seizure of crop, grain or chattels), to collect the rental. If this becomes necessary legal advice should be obtained before any action is taken.

(iii) Where desired a flexible rent formula and how it will operate should be clearly outlined in the written agreement.

IX. Flexible Cash Lease

Flexible cash leases combine some of the features of each of the cash lease and crop-share lease. In a flexible cash lease the rental varies with the price of grain or the yields of crops, or both. The need for flexibility in rental rates is particularly important when sharp swings in grain prices occur.

Complete flexibility is achieved in a crop share lease. For flexible cash leases, it is important to keep the lease and the procedures for calculating the rent simple.

Flexible cash leases in which the rental rate adjusts with the price of grain are the most appropriate and simple to administer.

1. Administration

Flexible rental rates based on grain prices can be administered in two ways. These are:

(i) A quantity of grain of a specific grade is agreed to by the tenant and landlord for each acre of land or quarter section of land to be leased.

The cash rent is determined by multiplying the agreed-to quantity of grain by the price of grain. If the grain was marketed on the open market, the parties could agree beforehand to a date on which the price would be set (e.g. street price on October 15 of each year).

If the grain was marketed by the Canadian Wheat Board, the tenant could pay a cash amount to the landlord each time the Canadian Wheat Board announced an initial, adjustment, interim or final payment for the grade of grain called for in the lease.

The landlord may require the tenant to make an advance payment in the spring before the crop is seeded. This would be applied towards the payment in the fall when the initial price is known or the street price can be determined.

(ii) The tenant delivers into an elevator in the landlords name, an agreed to quantity and grade of grain (e.g. 800 bushels of No. 2C.W. wheat for a quarter section of land). A cash purchase ticket is issued to the landlord and he receives any adjustment, interim and final payments directly from the Canadian Wheat Board.

The following are the advantages and disadvantages of flexible cash leases:

2. Advantages

(i) The tenant has greater independence in decision making as compared to a crop-share lease. He may grow any crops he wishes and utilize them in any manner he wishes.

(ii) The risk of changes in grain prices are shared by the landlord and tenant.

(iii) The tenant captures all the benefits of superior management.

(iv) There is less administration as compared to a crop-share lease but more compared to a cash lease.

(v) The landlord's rent is guaranteed in relation to quantity but not the price of grain.

(vi) The tenant may make full contribution on grain sales to the Western Grain Stabilization Plan.

3. Disadvantages

(i) The tenant assumes all the risks of crop production.

(ii) The landlord has less influence on the tenant's management.

4. The Amount of Flexible Cash Rent

The quantity and grade of grain in a flexible cash lease should relate on normal crop production on the leased land, normal grades of grain and the normal share that a landlord would receive in a crop share lease.

The following example illustrates a procedure to calculate the amount of flexible cash rent.

Example:

1/4 section of land, 150 acres cultivated
Crop Rotation: Wheat--Wheat--Fallow
Yields: Fallow Wheat 30 bushels per acre
Stubble Wheat 21 bushels per acre
Normal Crop Share in District: 1/3 acre to landlord

Step 1: Calculate Average Wheat Production

50 acres wheat fallow x 30 bu/ac=	1,500 bu.
50 acres wheat stubble x 21 bu/ac=	1,050 bu.
Average Wheat Production=	2,550 bu.

Step 2: Calculate Landlord's Normal Share
2,550 bushels x 1/3 share=850 bushels

Step 3: Calculate Rent Based on Grain Price

The following table shows the total rent with varying wheat prices:

Wheat Price ($/bu)	Landlord's Quantity of Wheat (bushels)	Total Rent
2.50	850	$2,125.00
3.00	850	2,550.00
3.50	850	2,975.00
4.00	850	3,400.00
4.50	850	3,825.00
5.00	850	4,250.00
5.50	850	4,675.00
6.00	850	5,100.00
6.50	850	5,525.00
7.00	850	5,950.00

Although, the tenant may grow any crop or combination of crops, it is usually preferable to use one commonly grown grain as the base for rent calculation.

Other types of flexible cash lease agreements may account for variations in both grain prices and crop yields. However, these agreements are more complex and often a crop-share lease would be the better type of lease to use.

5. Flexible Cash Lease Agreement

In addition to the points listed for all leases, a flexible cash lease should include the following:

(i) Dates on which rental is payable and the method of calculating the rental.

(ii) The delivery point at which prices are to be determined or to which the landlord's quantity of grain is to be delivered.

(iii) Special rights of the landlord if the rent is in arrears.

The landlord should be given the right to repossess and occupy the rented land if the tenant fails to make the payments according to the schedule outlined in the agreement. In addition, he may use any other means under the law (e.g. seizure of crop, grain or chattels), to collect the rental. If this becomes necessary legal advise should be obtained before any action is taken.

X. Other Types of Rental Arrangements

1. Pasture Leases on Privately Owned Land

Pasture lease rates are established by negotiation between landlords and tenants. The rental rate should relate to type of forage, its conditions and carrying capacity.

Budgeting guidelines can be used as a means to estimate pasture rents. The following are some guidelines:

(i) The Cost Approach

The landlords costs to own the pasture land are used to calculate the rental rate. These costs include interest on investment, depreciation property taxes, insurance and the costs to establish and break the forage crop (for tame forages only).

Example:
--1/2 section seeded pasture: $64,000 value
--Property Taxes $400 (year)
--Fencing: 3.5 miles x $2,400/miles=$8,400 value
--Water Supply: Dugout: $2,500 value
--Breaking, Seeding and Regrassing Costs=$55.00/acre
--Life of Pasture--10 years
--Stocking Rate--350 cow months (70 head for 5 months)

Land Costs: Interest on Investment $64,000 x 5%=	$3,200
Property Taxes	400
Fencing Costs: Interest on Average Investment $\frac{\$8,400}{2}$ x 12%	504
Depreciation $8,400 x 5%	420
Repair Allowance $8,400 x 2%	168
Water Costs: Interest on Average Investment $\frac{\$2,500}{2}$ x 12%	150
Depreciation $2,500 x 5%	125
Breaking, Seeding and Regrassing Costs=$\frac{\$55/ac x 320 ac}{10 \text{ years}}$	1,760
Total Annual Costs	$6,727

Pasture Cost Summary

Cost Per Cow Month	$\frac{\$6,727}{350} = \$19.22$
Cost Per Cow Per Grazing Season (5 months)	$\frac{\$6,727}{70} = \$96.10$
Cost Per Acre	$\frac{\$6,727}{320} = \$21.02$

(ii) The Contributions Approach

The contributions approach can be used to establish a flexible rent based on the value of calves. The cost contributions of the producer and the landlord who owns the pasture are determined. An equitable share of the value of calves to compensate the landlord for his pasture can then be determined.

The following example illustrates this procedure:

Example:

Pasture Owner's Costs	
Pasture (see previous example)	$96/cow
Cow Calf Producer's Costs	
Winter Feed	$115/cow
Bedding	15
Veterinary & Medicine	15
Salt, Minerals, Vitamins	12
Breeding Costs	20
Building & Facilities	40
Death Loss (2%)	13
Cow Replacement $\frac{\$750-550}{5 \text{ years}}$	40
Cow Interest $\frac{750+550}{5}$ x 12%	78
Interest on Operating Capital	15
Trucking and Marketing	15
Labor and Management Allowance	75
	$493

Total Contributions = $96 + $493 = $589

Pasture Owner's Share = $\frac{\$96}{\$589} \times 100\% = 16\%$

Cow Calf Producer's Share = $\frac{\$493}{\$589} \times 100\% = 84\%$

This example shows that approximately 16% of the total cow calf production costs relate to pasture. Therefore, the pasture owner would be entitled to 16% of the value of calves produced each year.

The pasture rent per cow per grazing season could be calculated according to the following formula:

Rent per cow season =

Pasture Owners Percentage Contribution	X	Average Calf Weight	X	Average Calf Crop	X	Average Calf Prices

If the pasture owner's percentage contribution was 16%, the average calf weight was 425 lb, the average calf crop was 90% and the average calf price was $1.00/lb. then the rent/cow season would be calculated as follows:

Rent/cow season = 16% x 425 lb. x 90% x $1.00/lb. = $61.20

Rather than use the above formula, a simpler approach would be to set the rent per cow season as a percentage of the average price of calves quoted in dollars per hundredweight ($/cwt). Sixty percent of the price of calves in $/cwt would give approximately the same result as the above formula. The following table shows the rent per cow season over a range of calf prices:

Calf Price ($/cwt)	Rent/cow season (60% of calf prices)
50.00	$30.00
75.00	45.00
100.00	60.00
125.00	75.00
150.00	90.00

Rental payments could be based on calf prices in the fall averaged over several weeks or based on a definite date. A partial rental payment could be made in the spring of the year before grazing commences with a final payment in the fall after calf prices are determined.

Pasture rental rates based on calf prices facilitates longer term leases since rental rates adjust automatically with market conditions.

(iii) The Income Approach

With the income approach the tenant would estimate the income from using the pasture,and subtract his costs of production from that amount. This leaves a residual amount that can be paid for pasture.

Example:
Cow calf Enterprise

Expected Income/Cow 425 lb. calves x 90% calf crop x $1.00/cwt =	$382
Expected Costs for one year (except Pasture)	493
Residual value for Pasture	$ 0

In this example the Income Approach leaves a zero residual return to the pasture.

(iv) Pasture Lease Agreement

The following items should be included in a pasture lease agreement in addition to clauses that apply to all leases:
--Date of rental payment.
--Method of calculating the rental payment if a flexible rental arrangement is used.
--Grazing period permitted and other limitations on grazing.
--Number of livestock permitted on the land.
--Rights of the tenant to cut hay.
--Responsibility for fertilization, rejuvenation, rebreaking and seeding.

2. Hay Leases on Privately Owned Land

Farmers often purchase standing hay from landowners. The settlement may be made to the landowner as a rent per acre, a rent per ton or the landlord may receive a share of the hay harvested. The settlement should relate to the quality of the hay, size of fields, yield per acre and condition of the field. Local market conditions are the primary factor which determine values.

The contributions approach, the cost approach and the income approach are procedures that can be used as guidelines to determine shares or value for standing hay.

The following example illustrates these three approaches:

Landlord's Costs			$/acre
Interest on Land Investment $300/ac x 5% =			$15.00
Property Taxes			2.00
Seed, Breaking & Reseeding	$55.00/ac / 6 years		9.16
		Total	$26.16

Hay Purchaser's Cost (Based on 1.25 tons hay/acre)		$/acre
Cutting, conditioning, baling and hauling (custom rates less profit margin) $28.00/ton x 1.25 tons =		$37.00
Twine $1.20/ton x 1.25 tons =		1.50
	Total	$38.50

Total Contributions $26.16 + $38.50=	$64.66
Landlord's Share = $26.16 / $64.66 x 100% =	40%
Hay Purchaser's Share = $38.50 / $64.66 x 100% =	60%

With the contribution approach a 40:60 division would be appropriate. The hay purchaser could supply 40% of the hay to the landlord or pay cash equal to 40% of the value of the hay. For example, if hay was valued at $60.00 per ton the landlord would receive $24.00/ton, (40% x $60.00).

With the cost approach, the landlord would have to charge $26.16 per acre or $20.93 per ton ($26.16 ÷ 1.25 tons/acre) to cover his fixed and variable costs.

With the income approach, the hay purchaser would subtract his total costs to harvest the hay from the value of the hay leaving a residual value. For example, if hay was valued at $60.00 per ton and the hay purchaser's costs were $30.80 ton, then he could afford to pay $29.20 per ton ($60.00-$30.80) to the landlord for the hay.

The value of silage could be determined using the same methods after adjustments for moisture content.

3. Custom Farming Arrangements

(a) Alternative to Leasing

Frequently, a landlord wishes to remain classified as a farmer and retain close control of the farming business but not be actively involved in its operation. A custom farming agreement may accomplish this objective.

A farmer, but not a landlord, is able to make contributions to the Western Grain stabilization Plan and to the Canadian Pension Plan on earnings from the farm business.

The custom operator in a custom farming agreement does not have the same rights as a tenant in a land leasing agreement. A custom farming agreement is not an interest in land. Consequently, a caveat can not be placed against the owner's title to protect the custom operator's interest, or to warn third parties of its existence. If the owner sold the land covered by a custom farming agreement to a third party who was unaware of it, the custom operator would have to sue the original owner for contractual damages and would have no right to continue farming the land.

(b) Preservation of Capital Gain Rollover Provisions and Capital Gains Exemption

Land may be rolled over on a tax deferred basis when it is transferred from a parent to a child, providing the child is a resident of Canada and the land is "used in the business of farming" by the parent, his spouse or any of his children immediately prior to the transfer. Land which is leased to anyone other than a spouse or child would not qualify for a rollover.

Also, to be eligible for the immediate $500,000 capital gains exemption on farmland, the land must be qualified farm property. Such property includes: (1) farmland and farm buildings held by an individual under conditions where the individual, his spouse, or child are presently using the property in the farm business; or (2) property farmed for at least five years since 1972 by the individual farmer, his spouse or his child. If you don't meet one of above two criteria then you should maybe consider a custom farming agreement since the capital gains exemption is being phased in as follows:

Year	Capital Gains Exempt	Taxable Capital Gains Exempt
1985	$ 20,000	$ 10,000
1986	50,000	25,000
1987	100,000	50,000
1988	200,000	100,000
1989	300,000	150,000
1990	500,000	250,000

For a rollover of capital gain to occur on a property exchange, the land must be "used in the business of farming" by the owner. Land leased to anyone would prevent a property exchange rollover from occurring.

In a properly structured custom farming agreement, the land will be considered to be "used in the business of farming" as opposed to being a rental property as in a lease agreement. Revenue Canada's Interpretation Bulletin #349R, "Transfer of farm property to child on death" indicates that a farm owner may engage the services of another person to undertake virtually all of the work associated with his farming activities (custom working). However, the owner of the farm property should assume some risk and provide the management for the operation.

To be a risk, the farm owner should pay some of the operating costs and stand to lose money if there was a crop failure. His management should take the form of decision making responsibilities for such functions as determining crops and varieties to be grown, fields to be seeded and summerfallowed, timing of field operations, inputs to be used and dates of crop sales.

In using custom farming agreements, it is important that the actual relationship that exists between the landowner and the custom operator conforms to the agreement. Revenue Canada will look at the actual facts of the situation not the agreement if there are discrepancies between an agreement and the facts of the situation.

Landowners should consider documenting their decision making responsibilities by way of copies of letters of instruction or minutes of meetings.

(c) Types of Custom Farming Agreements

There are many variations to custom farming agreements. However, three general categories of arrangements exist. These are:

(i) Custom Hiring Agreement

The landowner (farmer) makes all the farming decisions, arranges for and pays for the purchase of all inputs and receives all the income from grain sales. The landowner and the custom operator agree to have the custom operator perform all machine operations. The landowner agrees to pay a custom fee to the custom operator upon the completion of each machine operation.

A variation of the above is for the landowner to pay the custom operator a basic lump sum fee by a certain date say, July 31, of each year plus a bonus after the final accounting is completed for the year. The bonus could be a percentage, say 50% of "net income". "Net income" would be the value of all crop sales attributed to the year minus the costs of custom work, seed, fertilizer, chemicals and property taxes. The bonus percentage amount should depend on the size of the basic lump sum fee in relation to custom rates in the area.

(ii) Joint Farming Venture Agreement

In this agreement, both parties are considered to be farmers. The landowner supplies land to the joint venture and the other party supplies machinery, machinery operating costs and labour.

The two parties then share the crop sales on a percentage basis, say, 50:50, and also share the input costs (seed, fertilizer, chemicals, crop insurance and property taxes) on the same basis.

(iii) Farming Partnership Agreement

The agreement is much the same as in the joint venture, except that a partnership is established with more defined rules to govern the relationship.

Some custom farm agreements have been drafted in a manner that gives the same financial results as a crop share lease. A common agreement is one where the landowner (the "farmer") takes out the Canadian Wheat Board permit book in his name. All the crop is sold in the "farmers" name. After each grain sale or CWB payment is received, the "farmer" pays cash equal to, say, two thirds of the income received to the custom operator. The custom operator supplies seed, fertilizer, chemicals, machinery, labour and machinery operating costs. It is quite evident that it is the same as a crop share lease. Revenue Canada is very like to look at these agreements as leases. Therefore, the landowner would not qualify for a capital gain rollover or capital gains exemption nor would he qualify for rollover on a property exchange.

Consult a lawyer, accountant or farm management specialist before entering into any custom farming agreement since some agreements may not meet the "used in the business of farming" criteria. Review custom farming agreements that were entered into several years ago to determine if they are in tune with current requirements.

XI. Land Leases and the Income Tax Act

The following information outlines the major provisions of the Income Tax Act as related to leasing of farmland. It should not be considered as either interpretation or complete coverage of the Act. Specific problems should be discussed with your farm management specialist, accountant, tax consultant, or lawyer. Revenue Canada will also provide information.

1. Income and Expenses

The "Farmer's Income Tax Guide" indicates the income and expenses which may be claimed by the farmer (tenant) and landlord. For example, cash rental payments are income to the landlord and a deductible expense for the tenant. Crop-share payments are income to the landlord. They are not a deductible expense for the tenant unless he reports the total gross income from the rented property. The tenant may claim the cost of repairs as a deduction and capital cost allowance on improvements which he makes to the landlord's property.

2. Non-Resident Withholding Tax

If the landlord is a non-resident of Canada and resides in the U.S.A., the tenant must withhold 15% of the rent (cash rental or crop-share) and send it to Revenue Canada. A common practice with crop-share lease agreements is to have a separate bank account in the name of the landlord. The tenant deposits the landlord's share of crop in the account with the provision that the bank will remit 15% to Revenue Canada. When the tenant does not remit the 15% withholding tax, Revenue Canada will attempt to collect the tax from the landlord. If the landlord does not pay this tax, the tenant will be held responsible.

The withholding tax may be up to 25% for non-residents residing in countries other than the U.S.A. Check with an accountant or Revenue Canada for specific rates in other countries.

The individual who remits the withholding tax must complete and forward an NR4 return to Revenue Canada at the end of the year.

3. Capital Cost Allowance

When a landlord rents his farm or machinery, the Income Tax Act requires that he switch from the Straight Line Method (Part XVII) of capital cost allowance to the Declining Balance Method (Part XI). In most cases this is undesirable since it would mean that all recaptured capital cost allowance that occurs when the class is closed out (e.g., sale of all machinery in that class) would be taxable income. This problem could be avoided by the tenant hiring the machinery on a custom basis with the fee being a share of the crop or cash payment. For this situation, switching to Part XI method of capital cost allowance is not required.

Where the tenant makes improvements to the rented property at his own expense he is entitled to claim capital cost allowance on depreciable items. These improvements might include major alterations to existing structures or the construction of dugouts, dams, fences, and corrals, permanent grain storage and livestock buildings.

If the tenant receives compensation from the landlord or sells the asset, recaptured capital cost allowance and capital gain might occur. Since permanent improvements belong to the land they are legally owned by the landlord. For this reason it is important the tenant receive fair compensation whether it be in the form of reduced rent or cash payment.

4. Five Year Block Average

The landlord in a crop share arrangement can elect to do a five year block average for all his income if the net income from farming for those five years exceeds his non-farm income. Income arising from non-farm profits are considered farm income in most instances. It is recommended the landlord consult with an accountant when investment income might influence whether he is eligible for a five year block average.

The five year block provision is not available to the landlord in a cash rental arrangement.

5. Canada Pension Plan

Rental income can not be used as a basis for contributions to the Canada Pension Plan. Farmers who lease their land prior to age 65 and have no employment or self-employment income will be unable to make contributions to the plan. This will have the effect of reducing their Canada Pension Plan pension at age 65.

Rather than lease their land a landowner may consider hiring the farm work on a custom basis. The net income from this source is eligible for contributions to the Canada Pension Plan.

6. Capital Gains Rollover

An individual may transfer farmland to any of his children either during his lifetime or after his death on a capital gain rollover, providing that the land was used in the business of farming by himself, his spouse or any of his children. Children include sons-in-law, daughters-in-law, grandchildren and great grandchildren, step-children and foster children.

If the land is leased to someone other than those listed above, a capital gain rollover to a child is not possible. For this reason, many landowners

hire the farm work on a custom basis on a custom farming arrangement rather than leasing. This preserves the capital gain rollover (see the section on Custom Farming Arrangements).

7. Capital Gains Tax Exemption

Qualified farm property is eligible for an immediate capital gains exemption of $500,000. Such property includes:

(1) farmland or buildings held by an individual under conditions where the individual, his spouse or child uses the property in the farming business; or

(2) the property was farmed for at least five years since 1972 by the individual, his spouse or child.

If you don't meet one of above criteria then the capital gains exemption is phrased in over the next 6 years.

XII. Land Leases and the Law

The following is an outline of the law pertaining to land leases. It should not be considered as an interpretation or complete coverage of the existing statutes and court case decisions. It is recommended that you consult with a lawyer where specific problems arise.

A land lease is a contract by which one person, called the landlord or lessor, conveys the use of real (land) property to another person, called the tenant or lessee, for a period of time, called the term, for a consideration called rent.

A lease agreement is like all other contracts in that both parties must be competent to contract. A lease by or to a minor or mentally incompetent person may not be binding on the parties. A lawyer should be consulted prior to entering into such a lease.

A lease arrangement may be verbal or written and can be for any specified period of time.

The following is a general note with respect to land leases:

1. Verbal Lease

A verbal lease for a term not exceeding three years is valid and enforceable if:

(i) the tenant takes possession of the property
(ii) the property is not a homestead under the "Homesteads Act".

It does not have to be registered at the Land Titles Office. If another person should purchase the land from the landlord, the new landlord must honor the existing lease providing the tenant is in actual occupation of the land. The onus is therefore on the purchaser to ensure the property has not been rented out either under a verbal or written agreement. The purchaser should make enquiries in the district to determine who farmed the land last year.

If the land comprises the landlord's homestead the verbal contract is not binding since the landlord's wife has not given her written consent to the agreement. For this reason it is recommended the tenant have a written agreement with the landlord.

2. Written Lease

A lease for a term exceeding three years to be enforceable is required by the Statute of Frauds to be in writing. When a lease is written, it should state all the terms and conditions because any verbal promises with written agreements may not be binding.

Although a written lease exceeding three years is binding on the existing landlord and tenant it should be registered with the Land Titles Office to ensure that it shall be valid and enforceable if the property is sold to a new owner.

3. The Land Titles Act and The Landlord and Tenant Act (Provincial Acts)

These two Acts outline among other things, all the implied obligations by the landlord and tenant unless they have been specifically excluded in a written agreement. These include the following:

(i) The tenant will pay the rent agreed to in the lease.

(ii) The tenant can peaceably possess and enjoy the property for the term of lease without interference from the landlord.

(iii) The tenant is obligated to make repairs and to maintain the property in the same condition in which he took it except for reasonable wear and tear, and damages arising from natural hazards.

(iv) The landlord or his agent can enter upon the leased land to inspect the rented property. He may also request in writing that the tenant make specified repairs within a reasonable time period.

(v) Where the tenant is in default of payment or any other condition of the agreement for a period of two months, the landlord may repossess and occupy the rented property.

4. The Homesteads Act (Provincial)

This Act requires that the wife give her written consent to every lease agreement involving the homestead parcel of land if she is residing in Saskatchewan or has resided in Saskatchewan at any time since the marriage. A man can have several homesteads. Every parcel of land not exceeding 160 acres on which the husband has resided since the marriage constitutes the husband's homestead providing he has an equity or interest in the property. For example, the husband who has lived in a tent for one day on his land has created a homestead interest in that

parcel of land. The act also requires that the wife will appear before a solicitor, notary public, justice of the peace, registrar of land titles, local registrar of the Court of Queen's Bench or district court judge to have the "Homesteads Act Certificate" completed. This is to ensure the wife understands her rights in the homestead and that she signs the lease agreement and "Declaration by Wife" of her own free will and consent and without any compulsion on the part of her husband.

5. Registration of a Lease

In order to ensure that a lease is valid and enforceable against a purchaser, a lease exceeding three years must be either recorded on the certificate of title as a "lease registration" or recorded by means of a "caveat".

The Land Titles Act of Saskatchewan requires that when land, for which a certificate of title has been granted, is rented out for a term exceeding three years the lease agreement must be in a certain format (Form M) before it can be registered.

Sample lease agreement forms available from Saskatchewan Agriculture meet the required format.

The Land Titles Act does not make any provision for the registration of a lease which has a term of three years or less. In addition, "Lease Registration" is not permitted in situations where the land is controlled by the landlord under an agreement for sale or the written agreement does not conform to the required format. In these situations, the tenant's interest can be protected by filing a caveat on the certificate of title.

A fee is charged by the Land Titles Office for a lease registration. Land Titles Offices are located in Battleford, Humboldt, Moose Jaw, Prince Albert, Regina, Saskatoon, Swift Current, and Yorkton. The Land Registration Districts of Saskatchewan are outlined in Appendix 2.

6. Removal of a Lease Registration

After a registered lease has expired, the landlord naturally wishes that it be cancelled from his title. This can be done by having the tenant complete a "Surrender of Lease" form and by registering it in the appropriate Land Titles Office. Fees charged are the same as for lease registrations.

Leases which are registered by way of "caveat" on a certificate may be removed by the method outlined in the section "Removal of a Caveat".

When a lease that was registered, expires, the landlord may request the Registrar of Land Titles to remove the lease registration. This is done by the Registrar serving a notice lapse to the tenant. If the tenant does not file a notice with the Registrar within thirty days that he still has an interest in the land, the lease registration will lapse.

7. Caveat

The word caveat means "to be aware". Caveats are registered by parties who have or claim they acquired some interest in land under a document that cannot be registered. This would include a leasehold interest in buildings. Any dispute which may arise with respect to such claims may have to be resolved by the Court. The caveat can be recorded in the certificate of title by sending the caveat in the form prescribed to the Land Titles Office together with the required form.

Any person finding a caveat recorded on the title should be on his guard before purchasing the property. He should find out what the caveat is all about before completing the purchase.

8. Removal of a Caveat

The caveat can be removed by the tenant completing the "Withdrawal and Discharge of Caveat" form prescribed by The Land Titles Act and sending it to the appropriate Land Titles Office. Fees charged are the same as for recording a caveat. It can also be removed by the landlord submitting a request to the Registrar of Land Titles. The registrar will serve notice to lapse upon the tenant (caveator). If within 30 days thereafter, the tenant does not register an order of the Court extending this 30 day period, the caveat will lapse at the expiration of this time.

9. Permanent Improvements

Permanent Improvements such as buildings, fences, wells, dugouts, clearing and breaking, which are made by the tenant become part of the land and therefore are legally owned by the landlord unless there is an agreement to the contrary. Prior to making permanent improvements the tenant should have written permission from the landlord. It should clearly outline what buildings or improvements are to be made, who will pay the cost of materials and how the teant will be compensated at the termination of the lease for his labor or any costs which he may incur. The tenant could be compensated in the following ways:

(i) reduced rental;
(ii) cash payment based on the market value of the improvement at the termination of the lease;
(iii) longer term lease with no increase in the rental.

In situations where a son erects a building (e.g., hog barn) on his father's land the same legal implications apply. To protect his interest in the building the son should complete a leasehold agreement with the father and file a caveat against his father's title. This would warn potential

purchasers that a tenant has an interest in the property which must be honored.

10. Canadian Wheat Board Act (Federal)

The Canadian Wheat Board's policy is to issue a special permit book for quota purposes to those grain producers (actual producers and landlords) who have ceased farming operations entirely but do not have access to a current crop year permit book. This also applies to grain producers who have reduced their quota acreage by the sale of land or expiry of a lease agreement.

When a lease agreement expires and the tenant ceases to farm the rented property he is eligible to apply for a special permit book to deliver his share of grain carry-over produced on the property. If the landlord merely changed tenants he does not qualify for a special permit book. He would have to either deliver his share of grain carry-over through the permit book of his new tenant or sell the grain as non quota grains (e.g., feedlot).

11. Western Stabilization Plan

Only active farmers are eligible to participate and make contributions to the Western Grain Stabilization Plan. Landlords are not permitted to participate. A tenant on a flexible cash or cash lease would be able to make contributions based on total grain sales, while a tenant with a crop-share lease would be able to make contributions only on his share of grain sales.

12. The Agricultural Leasehold Act

Situations can arise whereby the tenant is unable to harvest the crop or remove stored grain from the rented land before termination of the lease. This includes bad weather conditions, lack of grain storage facilities and conditions which prevent the sale of grain (e.g., quotas).

The Agricultural Leasehold Act outlines the conditions under which a tenant may re-enter upon the land to harvest a crop and remove the stored grain. Where harvesting was completed before termination of the lease but grains remained stored on the rented property of the tenant must give written notice to the owner or occupant of the land at lease seven days prior to re-enetering but not later than June 1 following termination of the lease. The written notice must specify the nature and extent of the work to be carried out and the approximate date of re-entry which must not be later than June 15. Removal of the stored grain must be completed by June. 30.

Where re-entry is made by the tenant to complete the harvest, written notice at least seven days prior to re-entry but not later than April 1 after termination of lease must be given to the occupant or where the land is unoccupied to the owner. The notice must also specify the nature and extent of work to be carried out and the approximate date of re-entry which must not be later than May 1 following the date of termination of the lease and the tenant shall complete the harvesting and withdraw from the land not later than May 15.

The conditions as specified in the Agricultural Leasehold Act, apply to any agricultural land lease.

13. Termination of Leases

The following are situations in which a lease may be terminated:

(i) A lease terminates automatically at the end of the term. When the term of a lease expires but the tenant continues possession of the property, the landlord can take action under the Landlord Tenant Act to have the tenant removed.

(ii) A tenant may surrender a lease. Procedures for surrendering a lease are provided for in the Land Titles Act.

(iii) When the landlord sells the property under lease to the tenant, the lease is terminated. If the tenant had registered the lease by means of a lease registration or caveat, then the lease registration or caveat must be discharged by the tenant in the usual way even though the tenant purchases the property.

(iv) A lease is terminated when a party holding a mortgage (mortgagee) on the land, granted prior to the lease, forecloses and the mortgagee had not originally consented to the renting of the property to the tenant.

(v) Termination can occur by the landlord issuing a Notice to Quit to the tenant. A Notice to Quit is used when a lease does not expressly state a termination date or is a verbal lease. Unless the lease provides otherwise, six months notice prior to the calendar date of commencement of a lease for a year or more is required for termination. For a verbal lease, the date of commencement may be difficult to prove. The date of original possession of the land by the tenant would be an indication of this date.

(vi) A landlord could take action under the provisions of the Landlord-Tenant Act to repossess the property for breach of contract by the tenant. Breach of contract normally occurs if rent is not paid or the tenant is overholding. Breach of contract for poor farming practices or other reasons are more difficult to prove unless the lease agreement clearly states the responsibilities of the tenant.

(vii) When land is sold to a third party by the

landlord who entered into a lease with a tenant with a term over three years, the lease can not be enforced by the tenant against the new landlord unless he had registered the lease or caveat at the Land Titles Office. In such cases the lease would be terminated. However, a lease three years or less in length can be enforced by the tenant in actual occupation of the land.

Appendix 1

Cost Contributions Worksheet

Landlords's costs per Cultivated Acre

Investment Cost
$ _____ per acre x _____ % _____

Taxes _____
Buildings
Investment Cost
$ _____ per acre x _____ % _____
Other Costs _____
_____
_____
_____
_____
_____

A. Landlords Total Costs
Per cultivated Acre _____

Tenant's Costs Per Cultivated Acre

Seed _____
Seed Cleaning & Treating _____
Fertilizer _____
Weed & Insect Sprays _____
Fuel, oil, grease _____
Machinery Repairs _____
Machinery Investment Costs
$ _____ per acre x _____ % _____
Machinery Depreciation _____
Labour _____
Other Costs _____
_____
_____
_____

B. Tenants Total Costs
Per Cultivated Acre _____

Total Cost Contributions = A + B

Landlord's Share $= \frac{A \times 100}{A + B}$ = _____ %

Tenant's Share $= \frac{B \times 100}{A + B}$ = _____ %

Note:

1. Do not include input costs which are shared in the same proportion as the share of crop (e.g., fertilizer, chemicals, crop insurance). If the tenant supplies grain storage or the landlord provides machinery, the costs of investment, depreciation, repairs, and insurance should be added to the respective contributor.

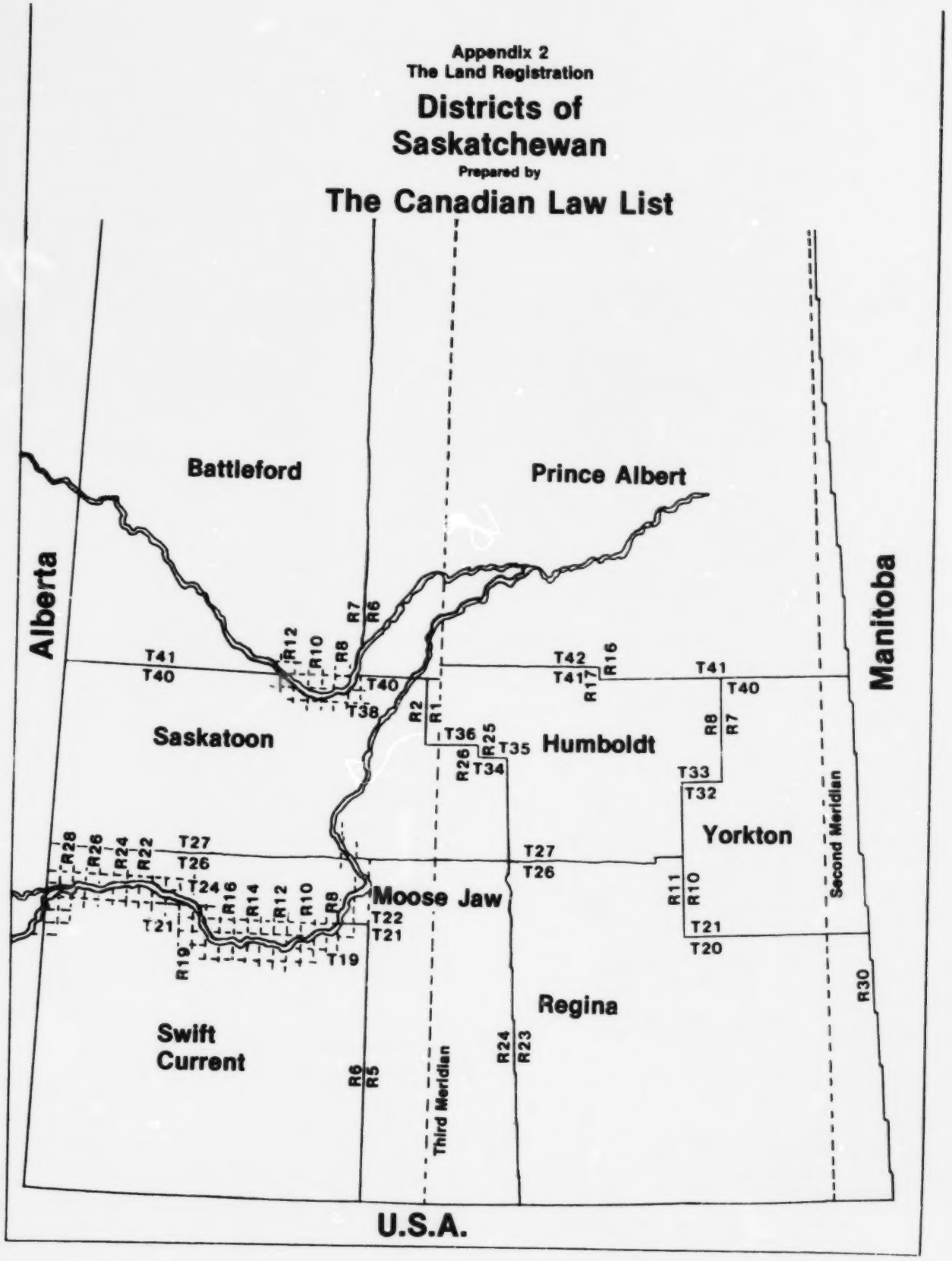
2. It is important to use realistic estimates of the tenant's costs.

Appendix 2
The Land Registration

Districts of Saskatchewan

Prepared by

The Canadian Law List



Appendix III: Cropping Decisions for Crop Share Leases

Tenants with crop share leases must often make different cropping decisions than on land owned or leased on a cash rental basis.

The most profitable level of fertilizer use, chemical application, types of crops grown and the length of crop rotation are key cropping decisions that may be different for land leased on a crop share basis. By properly structuring a crop share lease, whereby the landlord pays a proportionate share of yield increasing inputs like fertilizer and chemicals or by adjusting the crop share percentages for longer rotations, it may be possible to adopt the same profit maximizing decisions for land leased on a crop share basis as for owned land or land leased on a cash basis.

This analysis uses a budgeting approach to indicate fair divisions of a crop between a tenant and landlord for five different crop rotations. The impact of alternative crop rotations on tenant's and landlord's net income is also shown. Modifications to crop share leases are discussed in order to maintain a fair leasing arrangement.

Fair Crop Shares for Alternative Crop Rotation Lengths

The contributions approach was used to calculate crop share ratios for tenants and landlords. The contributions approach suggests that a tenant and landlord should share in the crop in the same proportion as they contribute to the costs of growing the crop.

Five rotations compared were 1/2 crop, 2/3 crop, 3/4 crop, 4/5 crop and continuous crop. Costs and returns were based on renting one-quarter section with 160 cultivated acres and a total farm size of 1,000 cultivated acres. (assumptions are stated in Table 6).

The percentage crop share for the five rotations and three alternative methods of sharing input cost is summarized in Table 1. Detailed calculations are illustrated Tables 2 and 3.

Table 1
Fair Crop Shares for Various Rotations and Types of Leases*

Type of Crop Share Lease	Crop Rotation									
	1/2 Crop		2/3 Crop		3/4 Crop		4/5 Crop		Continuous Crop	
	L.L Share	Tenant Share	L.L Share	Tenant Share	L.L Share	Tenant Share	L.L Share	Tenant Share	L.L Share	Tenant Share
Landlord pays taxes & granary repairs	33%	67%	29%	71%	27%	73%	25%	75%	23%	77%
Landlord pays taxes and granary repairs and shares chemicals and fertilizer in same proportion as crop	38%	62%	34%	66%	33%	67%	31%	69%	30%	70%

* Fair crop shares means that the landlord and tenant share the crop in the same proportion as they contribute to the costs of growing the crop.

Table 1 indicates that a tenant must receive a larger percentage share of the total crop as rotations of greater length are used in order to maintain a fair agreement. While the landlord may receive a smaller crop share, it does not mean that his net income declines since the landlord will have a smaller share of a larger crop.

In leases where the landlord shares the fertilizer and chemical costs with the tenant in the same proportion as the crop share, he is entitled to a larger crop share than in those cases where no input sharing occurs.

Effects of Rotation Length on Tenant and Landlord Net Return

Unless a crop share lease is properly structured there is no incentive for the tenant to extend the rotation beyond a 1/2-1/2 rotation. Table 4, Example 1, indicates that the tenant's net return declines for longer rotations when he receives a two-thirds crop share for all rotations and pays all the input costs. Wheat prices would have to be $6.47 per bushel in a 1/2:1/2 rotation to cover all the tenant's costs and $7.93/ bushel for continuous cropping.

Wheat prices would have to be $12.80 per bushel for the tenant to realize as much return after his costs (including seed at $13.80 per bushel) on a continous cropping rotation as he would with a 1/2:1/2 rotation. The tenant's net return with wheat at $12.80 per bushel is $9,350 in both cases.

Table 4, Example 2, indicates the tenant's net return when the crop share ratio is adjusted for longer rotations. At a wheat price of $5.00 per bushel there is still no incentive for the tenant to extend the rotation beyond 1/2:1/2. The tenant's losses do not increase as greatly for longer rotations in Example 2 as compared to Example 1. Wheat prices would have to be $7.90 per bushel for the tenant to realize as much net return (including seed at $8.90 per bushel) on a continuous cropping rotation as he would with a 1/2:1/2 rotation. The tenant's net return with wheat at $7.90 per bushel is $2,063 in both cases.

Table 4, Example 3, indicates the tenant's net return where the crop share ratio is adjusted for longer rotations and the landlord pays a proportionate share of the fertilizer and chemical costs. As with Examples 1 and 2, the tenant's net return declines with longer rotations. A 2, the tenant's net return declines with longer rotations. A wheat price of $7.70 per bushel is required in order for the tenant to realize as much profit (including seed at the tenant to realize as much profit (including seed at $8.70 per bushel) on a continuous cropping rotation as he would with a 1/2:1/2 rotation. The tenant's net return with wheat at $7.70 per bushel is $1,486 in both cases.

The effect of rotation lengths on the landlord's net return is shown in Table 5, Examples 1, 2 and 3. In Example 1, the landlord's net return increases with longer rotations. Where the landlord's crop share is based on the contributions approach as illustrated in Table 5, Example 2, the level of the landlord's net return does not change appreciably with a longer crop rotation.

Where the landlord's share is based on the contributions approach and he pays a proportionate share of the fertilizer and chemical costs as illustrated in Table 5, Example 3, there is a reduction of the landlord's net return for longer crop rotations.

This analysis suggests that with wheat prices at $5.00 per bushel and the cost and yields assumed, the tenant is better off on a 1/2:1/2 crop rotation. If wheat prices were substantially higher, both parties could be financially better off with longer crop rotations.

Conclusion

When leasing land on a crop share basis it is important to consider the rotation to be used as well as the contributions by both the landlord and tenant. A change in the crop rotation may result in inequities unless the lease agreement is adjusted.

Table 2
Crop Share Rental Calculations Where Landlord Pays Property Taxes and Granary Repairs

Tenant's Costs	Crop Rotation 1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Machinery Operating	$ 1,752	$ 1,968	$ 2,048	$ 2,128	$ 2,280
Seed	600	795	900	960	1,200
Fertilizer-P_2O_5	672	890	1,008	1,075	1,344
-N		658	993	1,192	1,987
Fertilizer bander rental		172	260	312	520
Chemicals					
-Wild oat	630	835	945	1,008	1,260
-Broadleaf	260	345	390	416	520
Crop Insurance	320	371	400	416	480
Interest on tenant's cash operating expenses	389	559	625	676	863
Labour and Management	2,880	3,040	3,200	3,360	3,520
Machinery Investment	1,442	1,688	1,701	1,898	1,922
Machinery Depreciation	1,405	1,643	1,656	1,848	1,872
Total Tenant's Costs (A)	$10,350	$12,964	$14,126	$15,289	$17,768

Landlord's Costs					
Property Taxes	450	450	450	450	450
Granary repairs and Insurance	60	60	60	60	60
Interest on landlord's cash operating expenses	46	46	46	46	46
Granary Depreciation	150	150	150	150	150
Land Investment	4,500	4,500	4,500	4,500	4,500
Total Landlord's Cost (B)	$5,206	$5,206	$5,206	$5,206	$5,206
Total tenant and landlord costs (A & B)	15,556	18,170	19,332	20,495	22,974
Tenant's Crop Share	10,350 =67%	12,964 =71%	14,126 =73%	15,289 =75%	17,768 =77%
	15,556	18,170	19,332	20,495	22,974
Landlord's Crop Share	5,206 =33%	5,206 =29%	5,206 =27%	5,206 =25%	5,206 =23%
	15,556	18,170	19,332	20,495	22,974

Table 3
Crop Share Rental Calculations Where Landlord Pays
— Property Taxes and Granary Repairs
— Shares Fertilizer and Chemicals Cost in Same Proportion as the Crop

Crop Rotation

Tenant's Costs	½ - ½	⅓ - ⅓	¼ - ¾	⅕ - ⅘	Continuous
Machinery Operating	$1,752	$1,968	$2,048	$2,128	$2,280
Seed	600	795	900	960	1,200
Fertilizer - P_2O_5	417	587	675	742	941
- N		434	665	822	1,391
Fertilizer bander rental		172	260	312	520
Chemicals					
- Wild oat	391	551	633	696	882
- Broadleaf	161	228	261	287	364
Crop Insurance	320	371	400	416	480
Interest on tenant's cash operating expenses	334	476	526	573	725
Labour and Management	2,800	3.040	3,200	3,360	3,520
Machinery Investment	1,442	1,688	1,701	1,898	1,922
Machinery Depreciation	1,405	1,643	1,656	1,848	1,872
Total Tenants Costs (A)	$9,702	$11,953	$12,925	$14,042	$16,097

Landlord's Costs					
Fertilizer - P_2O_5	255	303	333	333	403
- N		224	328	370	596
Chemicals					
- Wild oat	239	284	312	312	378
- Broadleaf	99	117	129	129	156
Property Taxes	450	450	450	450	450
Granary repairs and insurance	60	60	60	60	60
Interest on landlord's cash operating expenses	94	129	145	149	184
Granary Depreciation	150	150	150	150	150
Land Investment	4,500	4,500	4,500	4,500	4,500
Total Landlord's Cost (B)	$5,847	$6,217	$6,407	$6,453	$6,877
Total tenant and landlord costs (A & B)	15,549	18,170	19,332	20,495	22,974
Tenant's Crop Share	9,702=62%	11,953=66%	12,925=67%	14,042=69%	16,097=70%
	15,549	18,170	19,332	20,495	22,974
Landlord's Crop Share	5,847=38%	6,217=34%	6,407=33%	6,453=31%	6,877=30%
	15,549	18,170	19,332	20,495	22,974

Table 4
Effect of Crop Rotation on Tenant's Income

Assume - landlord pays taxes and granary repairs
- summerfallow wheat crop 30 bushels/acre
- stubble wheat crop 21 bushels/acre
- wheat at $5/bushel

Example #1 - Tenant receives 2/3 Crop share in all Rotations

Crop Rotations

	1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Wheat Produced (bu)	2,400bu	2,718bu	2,880bu	2,976bu	3,360bu
Value of Production	$12,000	$13,592	$14,400	$14,880	$16,800
Tenant's Share	8,000	9,061	9,600	9,920	11,200
Less Tenant's Costs	10,350	12,964	14,126	15,289	17,768
Tenant's Net Return	-2,350	-3,903	-4,709	-5,369	-6,568
Wheat Price required to cover all tenant's costs	$6.47/bu	$7.15/bu	$7.35/bu	$7.70/bu	$7.93/bu

Example #2 - tenant receives a crop share based on the contributions approach

Crop Rotations

	1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Value of Production	$12,000	$13,592	$14,400	$14,880	$16,800
Tenant's Crop Share	67%	71%	73%	75%	77%
Tenant's Share	$ 8,000	$ 9,786	$10,512	$11,160	$12,936
Less Tenant's Costs	10,350	12,964	14,126	15,289	17,768
Tenant's Net Return	-2,350	-3,178	-3,614	-4,129	-4,832
Wheat Price required to cover all tenant's costs	$6.47/bu	$6.62/bu	$6.72/bu	$6.85/bu	$6.87/bu

Example #3 - tenant receives a crop share based on the contributions approach
- in addition to taxes and granary repairs, the landlord shares fertilizer and chemical costs in the same proportion as the crop.

Crop Rotations

	1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Value of Production	$12,000	$13,592	$14,400	$14,880	$16,800
Tenant's Crop Share	62%	66%	67%	69%	70%
Tenant's Share	$7,440	$8,971	$9,648	$10,267	$11,760
Less Tenant's Costs	9,702	11,953	12,925	14,042	16,097
Tenant's Net Return	-2,262	-2,982	-3,277	-3,775	-4,337
Wheat Price required to cover all tenant's costs	$6.52/bu	$6.66/bu	$6.70/bu	$6.83/bu	$6.84/bu

Table 5
Effect of Crop Rotation on Landlord's Income

Assume - landlord pays taxes and granary repairs
- summerfallow wheat crop 30 bushels/acre
- stubble wheat crop 21 bushels/acre
- wheat at $5/bushel

Example #1 - landlord receives 1/3 crop share in all rotations

Crop Rotations

	1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Value of Production	$12,000	$13,592	$14,400	$14,880	$16,800
Landlord's Share	4,000	4,531	4,800	4,960	5,600
Less Landlord's Costs	5,206	5,206	5,206	5,206	5,206
Landlord's Net Return	-1,206	- 675	- 406	- 246	- 394
Wheat Price required to cover all landlord's costs	$6.51/bu	$5.74/bu	$5.42/bu	$5.24/bu	$4.64/bu

Example #2 - Landlord receives a crop share based on the contributions approach

Crop Rotations

	1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Value of Production	$12,000	$13,592	$14,400	$14,880	$16,800
Landlord's Crop Share	33%	29%	27%	25%	23%
Landlord's Share	$4,000	$3,806	$3,888	$3,720	$3.974
Less Landlord's Costs	5,206	5,206	5,206	5,206	5,206
Landlord's Net Return	-1,206	-1,400	-1,318	-1,486	-1,342
Wheat Price required to cover all landlord's costs	$6.51/bu	$6.84/bu	$6.69/bu	$6.99/bu	$6.73/bu

Example #3 - Landlord receives a crop share based on the contributions approach
- in addition to taxes and granary repairs, the landlord shares fertilizer and chemical costs in the same proportion as the crop.

Crop Rotations

	1/2 - 1/2	1/3 - 2/3	1/4 - 3/4	1/5 - 4/5	Continuous
Value of Production	$12,000	$13,592	$14,400	$14,880	$16,800
Landlord's Crop Share	38%	34%	33%	31%	30%
Landlord's Share	$4,560	$4,621	$4,572	$4,613	$5,040
Less Landlord's Costs	5,847	6,217	6,407	6,453	6,877
Tenant's Net Return	-1,287	-1,596	-1,655	-1,840	-1,837
Wheat Price required to cover all landlord's costs	$6.41/bu	$6.73/bu	$6.74/bu	$6.99/bu	$6.82/bu